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Independent Auditor's Report

To the Architect of the Capitol

We have audited the accompanying balance sheets of the Architect of the Capitol (AOC) as of September 30, 2007 and 2006, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended. These financial statements are the responsibility of AOC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of AOC at September 30, 2007 and 2006, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 16, 2008 on our consideration of AOC's internal control over financial reporting, and compliance and other matters for the year ended September 30, 2007. The purpose of these reports is to describe the scope of our internal control testing over financial reporting and compliance and the results of that testing. The purpose of these reports is not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

January 16, 2008
Alexandria, Virginia

ARCHITECT OF THE CAPITOL Balance Sheets

As of September 30, 2007 and 2006
(\$ in Thousands)

	Fiscal Year 2007	Fiscal Year 2006
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$571,932	\$632,235
Investments (Note 3)	150	1,392
Accounts Receivable (Note 4)	1,659	1,461
Total Intragovernmental Assets	573,741	635,088
Investments (Note 3)	34,635	33,202
Accounts Receivable (Note 4)	126	139
Property and Equipment, Net (Note 5)	1,812,518	1,615,800
Other Assets (Note 6)	4	16
AOC Heritage Collections (Notes 1J and 16)	-	-
TOTAL ASSETS	\$2,421,024	\$2,284,245
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable (Note 7)	\$222	\$363
Accrued Unfunded Workers' Compensation (Notes 7 and 8)	8,499	8,560
Other Liabilities (Note 7)	1,670	58
Total Intragovernmental Liabilities	10,391	8,981
Accounts Payable (Note 7)	3,085	9,951
Debt Held by the Public (Note 9)	152,305	156,167
Actuarial Unfunded Workers' Compensation (Note 8)	44,435	46,938
Contingent and Environmental Liabilities (Note 10)	98,800	38,694
Accrued Annual Leave and Other (Note 8)	14,680	13,689
Capital Lease Liability (Note 12)	32,052	47,753
Contract Holdbacks (Note 13)	18,117	20,468
Other Accrued Liabilities (Note 13)	47,887	38,793
Advances from Others (Note 13)	13,198	5,381
TOTAL LIABILITIES	\$ 434,950	\$ 386,815
NET POSITION		
Unexpended Appropriations	\$ 455,635	\$ 457,254
Cumulative Results of Operations	1,530,439	1,440,176
TOTAL NET POSITION	\$ 1,986,074	\$ 1,897,430
TOTAL LIABILITIES AND NET POSITION	\$2,421,024	\$2,284,245

The accompanying notes are an integral part of these financial statements.

ARCHITECT OF THE CAPITOL
Statements of Net Cost

For the years ended September 30, 2007 and 2006
(\$ in Thousands)

	Fiscal Year 2007	Fiscal Year 2006
Program Costs:		
General and Administrative		
Gross Costs	\$88,354	\$94,330
Less Earned Revenue	(125)	0
Net Program Costs	<u>88,229</u>	<u>94,330</u>
Capitol Building		
Gross Costs	39,428	37,557
Less Earned Revenue	(1,549)	(1,548)
Net Program Costs	<u>37,879</u>	<u>36,009</u>
Senate Office Buildings		
Gross Costs	71,372	69,025
Less Earned Revenue	(2,787)	(4,184)
Net Program Costs	<u>68,585</u>	<u>64,841</u>
House Office Buildings		
Gross Costs	51,391	47,541
Less Earned Revenue	(155)	(33)
Net Program Costs	<u>51,236</u>	<u>47,508</u>
Capitol Power Plant		
Gross Costs	118,512	66,872
Less Earned Revenue	(8,967)	(6,247)
Net Program Costs	<u>109,545</u>	<u>60,625</u>
Library of Congress		
Gross Costs	34,383	29,144
Less Earned Revenue	0	(38)
Net Program Costs	<u>34,383</u>	<u>29,106</u>
Capitol Police		
Gross Costs	12,353	10,685
Less Earned Revenue	0	0
Net Program Costs	<u>12,353</u>	<u>10,685</u>
Botanic Garden		
Gross Costs	8,576	6,541
Less Earned Revenue	0	0
Net Program Costs	<u>8,576</u>	<u>6,541</u>
Judiciary Buildings		
Gross Costs	35,465	34,519
Less Earned Revenue	(30,184)	(28,507)
Net Program Costs	<u>5,281</u>	<u>6,012</u>
Net Cost of Operations	<u>\$416,067</u>	<u>\$355,657</u>

The accompanying notes are an integral part of these financial statements.

ARCHITECT OF THE CAPITOL
Statements of Changes in Net Position

For the years ended September 2007 and 2006
(\$ in Thousands)

	Fiscal Year 2007	Fiscal Year 2006
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$1,440,176	\$1,262,526
Budgetary Financing Sources:		
Appropriations Used	458,513	506,527
Non-Exchange Revenue	52	193
Transfers In/Out Without Reimbursement	800	-
Other Financing Sources:		
Donations and Forfeitures of Property (Note 5)	28,951	-
Transfers In/Out Without Reimbursement	(2,432)	-
Imputed Financing From Costs Absorbed by Others (Note 11)	20,446	26,587
Total Financing Sources	506,330	533,307
Net Cost of Operations	(416,067)	(355,657)
Net Change	90,263	177,650
CUMULATIVE RESULTS OF OPERATIONS	\$1,530,439	\$1,440,176
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$457,254	\$511,819
Budgetary Financing Sources:		
Appropriations Received	455,545	461,702
Appropriations Transferred-In/Out	13,686	(850)
Other Adjustments (Rescissions, etc)	(12,337)	(8,890)
Appropriations Used	(458,513)	(506,527)
Total Budgetary Financing Sources	(1,619)	(54,565)
TOTAL UNEXPENDED APPROPRIATIONS	\$455,635	\$457,254
NET POSITION	\$1,986,074	\$1,897,430

The accompanying notes are an integral part of these financial statements.

ARCHITECT OF THE CAPITOL

Statements of Budgetary Resources

For the years ended September 30, 2007 and 2006
(\$ in Thousands)

	Fiscal Year 2007	Fiscal Year 2006
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	\$273,382	\$282,773
Recoveries of Prior Year Unpaid Obligations	9,142	14,331
Budget Authority:		
Appropriation	455,597	461,895
Borrowing Authority	13,419	13,730
Spending Authority from Offsetting Collections		
Earned:		
Collected	43,408	44,900
Change in Receivables from Federal Sources	(1,413)	1,413
Change in Unfilled Orders:		
Advance Received	7,817	(315)
Expenditure Transfers from Trust Funds	800	-
Subtotal Budget Authority	519,629	521,623
Nonexpenditure Transfers, net, anticipated and actual	13,687	(850)
Permanently not Available	(29,567)	(26,120)
Total Budgetary Resources	\$786,273	\$791,757
Status Of Budgetary Resources		
Obligations Incurred:		
Direct	\$444,692	\$481,475
Reimbursable	39,063	36,900
Subtotal	483,755	518,375
Unobligated Balances:		
Exempt from Apportionment	278,089	243,454
Unobligated Balances - Not Available	24,429	29,928
Total Status Of Budgetary Resources	\$786,273	\$791,757
Change In Obligated Balances		
Obligated Balances, net:		
Unpaid Obligations, Brought Forward, October 1	\$361,658	\$396,953
Less: Uncollected Customer Payments From Federal Sources, Brought Forward	(1,413)	(20,000)
Total Unpaid Obligated Balance, Net	360,245	376,953
Obligations Incurred, net	483,755	518,375
Less: Gross Outlays	(566,706)	(539,339)
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	(9,142)	(14,331)
Change in Uncollected Customer Payments from Federal Sources	1,413	18,587
Total, Obligated Balances, Net	\$269,565	\$360,245
Obligated Balance, Net, End of Period		
Unpaid Obligations	\$269,565	\$361,658
Less: Uncollected Customer Payments from Federal Sources	-	(1,413)
Total, Unpaid Obligated Balance, Net, End of Period	\$269,565	\$360,245
Net Outlays		
Gross Outlays	\$566,706	\$539,340
Less: Offsetting Collections	(52,026)	(64,585)
Total Net Outlays	\$514,680	\$474,755

The accompanying notes are an integral part of these financial statements.

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NOTE 1:**Summary of Significant Accounting Policies****A. Reporting Entity**

The Architect of the Capitol (AOC) is an office within the Legislative Branch of the federal government. Initially authorized by Congress to provide "suitable buildings and accommodations for the Congress of the United States," our role has evolved to include responsibility for the maintenance, operation, development, and preservation of the Capitol Building, Senate Office Buildings, House Office Buildings, Library of Congress Buildings and Grounds, Capitol Power Plant, U.S. Botanic Garden, Capitol Police Buildings and Grounds, Supreme Court Building and Grounds, and all of the grounds encompassing the Capitol campus.

We are also responsible for:

- providing facilities management services for the Senate Restaurants,
- construction of the Capitol Visitor Center,
- arrangements for the presidential inaugural and other ceremonies held on the Capitol Grounds, and
- providing steam and chilled water to the Supreme Court and Thurgood Marshall Federal Judiciary Buildings, Union Station, and the Folger Library, as well as steam only to the Government Printing Office and the Postal Square building.

Non-entity activities include:

- a portion of steam and chilled water,
- flag-flying fees, and
- provision of palm trees for rent.

Upon receipt, funds for these activities are not available for our use. The only non-entity asset is in accounts receivable.

B. Basis of Accounting and Presentation

Our Balance Sheet has been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment as well as the recognition of other long-term assets and liabilities.

GAAP require us to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities (including contingent liabilities), and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from our estimates.

For financial reporting purposes, we have issued AOC Order No. 32-02 which adopts GAAP for financial reporting and internal controls in a manner consistent for a legislative office. As a legislative branch office, we are not required to follow the accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the standards promulgated by FASAB.

We have not adopted the Federal Managers Financial Integrity Act, the Federal Financial Management Improvement Act of 1996, or the Government Performance and Results Act, as these standards apply only to Executive Branch agencies. We are committed to using these Acts as "best practices" and are incorporating them into our financial management practices as appropriate.

C. Fund Balance with Treasury

We maintain all cash accounts, with the exception of investments described in Note 3, with the U.S. Department of Treasury (Treasury). The Fund Balance with Treasury account represents the unexpended balances of appropriation accounts, trust accounts, and revolving funds. Cash receipts and disbursements are processed by Treasury, and our records are reconciled with those accounts on a regular basis.

D. Accounts Receivable

Accounts Receivable includes reimbursement for supplying entities on Capitol Hill with steam and chilled water to heat and cool their facilities (see Note 4). Per annual appropriation, we provide steam and chilled water to the Folger Library, Union Station, Supreme Court and Thurgood Marshall Federal Judiciary Buildings, as well as steam only to the Government Printing Office and the Postal Square building. We are legislatively provided the ability to collect a pre-determined amount to recover the cost of supplying these services and record these amounts as offsetting collections. Any amount collected over the pre-determined amount is credited to the Treasury's Miscellaneous Receipt Fund and is a non-entity asset.

E. Investments

As a result of financing the construction of the Thurgood Marshall Federal Judiciary Building, we have funds invested by a trustee (see Note 3). These investments are recorded at current market value.

F. Trust and Revolving Funds

We have stewardship responsibility for three revolving funds that are included in the balance sheet. The revolving funds consist of the House of Representatives Wellness Center Fund, the Senate Health and Fitness Facility Fund, and the Judiciary Office Building Development and Operations Fund. Preservation and maintenance of the House of Representatives Wellness Center are paid by members' dues. Proceeds from the Senate recycling program are used to pay for the preservation and maintenance of the Senate Health and Fitness Facility. The Judiciary Office Building Development and Operations Fund is used to record transactions related to the Thurgood Marshall Federal Judiciary Building (TMFJB) (see Note 3).

We also administer the National Garden Trust Fund, subject to the direction of the Joint Committee on the Library (of Congress). We are authorized to accept gifts or bequests of money, plant material, and other property on behalf of the Botanic Garden. Gifts of money are deposited into the National Garden Trust Fund. We can also dispose of, utilize, obligate, expend, disburse, and administer such gifts for the benefit of the Botanic Garden, including, among other things, the carrying out of any programs, duties, or functions of the Botanic Garden, and for constructing, equipping, and maintaining the National Garden (see Note 3).

G. Recognition of Financing Sources

We receive funding to support our programs through appropriations authorized by Congress. Funding for our operating and capital expenditures is received as annual, multi-year, and no-year appropriations. The appropriations we receive are:

- Botanic Garden,
- Capitol Building,
- Capitol Grounds,
- Capitol Police Buildings and Grounds,
- Capitol Power Plant,
- Capitol Visitor Center,
- Congressional Cemetery,
- General Administration,
- House Office Buildings,
- Library Buildings and Grounds, and
- Senate Office Buildings.

H. Operating Materials and Supplies

Our materials and supplies consist of tangible personal property consumed during normal operations. Per Statement of Financial Accounting Standard (SFFAS) No. 3, "Inventory and Related Property," operating materials and supplies are recorded using the

purchases method. The purchases method provides that operating materials and supplies be expensed when purchased.

Operating materials and supplies are purchased using funds specifically appropriated to our ten jurisdictions*; therefore, the related usage of those materials and supplies is restricted to those specific appropriations making the purchases.

I. Property and Equipment

We record property and equipment at cost. We depreciate buildings and equipment over their estimated useful lives, which range from 2 to 40 years, using the straight-line method. All AOC property and equipment is in our possession. None is held by others (see Note 5).

The following table presents our capitalization thresholds and related useful lives.

Property Type	Useful Life (years)	Capitalization Threshold
Real Property	40	\$200,000
Improvements	20	\$200,000
Equipment and Vehicles	2-15	\$25,000
Assets under Capital Lease	Shorter of Lease Term or Useful Life of Property Type	See related Property Type
Intellectual Property	3	\$1,000,000

The Capitol Building, the Supreme Court Building, and the Senate and House Office Buildings, as well as the Library of Congress' Jefferson Building, are considered multi-use heritage assets and are included in the balance sheet.

J. AOC Heritage Collections

Stewardship Property, Plant & Equipment (PP&E) consist of assets whose physical properties resemble those of General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, determining a monetary value would be difficult, and matching costs with specific periods may not be possible or meaningful. Heritage assets are Stewardship PP&E that are unique and are generally expected to be preserved indefinitely. Heritage assets have historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. These assets are reported in terms of physical units rather than cost or other monetary values per SFFAS No. 29. There are two

*Note: General Administrative is included as a jurisdiction for Financial Statement purposes.

types of heritage assets: collection, which are objects gathered and maintained for exhibition, such as museum and art collections; and non-collection, which are parks, memorials, monuments, and buildings. AOC's collections contain both types of heritage assets.

K. Liabilities

Liabilities represent the amounts we owe to others for goods or services received, and amounts owed for progress in contract performance. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. For accrued unfunded annual leave and workers' compensation, appropriations may be enacted to fund these activities. The Balance Sheet presents the following types of liabilities:

- Unfunded actual and actuarial workers' compensation,
- Accounts payable,
- Debt held by the public,
- Annual leave, and
- Capital lease liability.

L. Personnel Compensation and Benefits

Federal Employee Benefits -The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. The DOL determines the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases (see Note 8).

We recognize our share of the cost of providing future pension benefits to eligible employees over the period that they render the related services. This amount is considered imputed financing to us (see Note 11).

We also recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for our employees while they are actively employed. This amount is also considered imputed financing to us (see Note 11).

Annual and Other Leave - Annual leave is recognized as an expense and a liability as it is earned. The liability is reduced as leave is

taken. The accrued leave liability is principally long-term in nature. Other types of leave are expensed when taken and no future liability is recognized for these amounts (see Note 8).

M. Contingencies

We account for contingencies in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." It defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to the possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. We recognize a contingent liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow is measurable. We have recorded provisions for losses in relation to the definition of contingent liabilities documented above (see Note 10).

N. Statement of Net Cost

The Statement of Net Cost (SONC) is presented in accordance with SFFAS No. 4, by responsibility segment/jurisdiction. Costs not otherwise assigned to responsibility segment/jurisdictions are presented as General Administrative. We have a number of initiatives (cost accounting, performance-based budgeting, etc.) in process that will assist us with gathering data in a manner to provide even more information to our stakeholders. While these initiatives are in various stages of progress, we believe the responsibility segment/jurisdiction approach provides information to our stakeholders in a direct and succinct manner. As our financial reporting processes mature, we plan to enhance our SONC by linking it to our strategic plan following best practices seen at other agencies.

The responsibility segments are aggregates of the following funds:

General Administrative

- General Administrative
- American Disabilities Act
- Congressional Cemetery

Capitol Buildings and Capitol Grounds

- Capitol Buildings
- Capitol Grounds
- Capitol Visitor Center
- West Central Front

Senate Office Building

- Senate Office Building
- Senate Health and Fitness

House Office Building

- House Office Building
- House Wellness Center

Capitol Power Plant

Library of Congress and Grounds
 Capitol Police and Grounds
 Botanic Garden

Botanic Garden
 National Garden

Judiciary Buildings and Grounds
 Supreme Court
 Thurgood Marshall

Revenues are calculated on a direct cost recovery basis.

NOTE 2:

Fund Balance with Treasury

Our funds with Treasury primarily consist of appropriated funds. We also have stewardship responsibility for three revolving funds and administer one trust fund. The balance of these funds as of September 30, 2007 and 2006 is as follows:

A. Fund Balances

\$ in Thousands

Fund Type	2007	2006
Appropriated Funds	\$557,396	\$630,109
Trust Funds	43	10
Revolving Funds	14,493	2,116
Total	\$571,932	\$632,235

B. Status of Fund Balance with Treasury

We classify our funds with Treasury as obligated, unobligated available, or unobligated unavailable. Unobligated available balances represent unexpired appropriations available for incurring new obligations. Unobligated unavailable balances are expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders or orders received but not yet paid.

Status of Fund Balance with Treasury as of September 30, 2007 and 2006, consist of the following:

\$ in Thousands

Balance Type	2007	2006
Unobligated Balance		
Available	\$274,805	\$235,600
Unavailable	27,562	34,977
Obligated Balance not yet Disbursed	269,565	361,658
Total	\$571,932	\$632,235

NOTE 3:

Investments

A. Investments with Treasury

The National Garden at the U.S. Botanic Garden was funded privately via The National Fund for the U.S. Botanic Garden (USBG), a not-for-profit corporation assisting the Architect of the Capitol in raising private funds pursuant to Public Law 102-229. This is the first project, authorized by Congress for construction by the Architect of the Capitol, which was financed with privately donated funds. Funds were raised by private citizens, corporations, and garden clubs from across the nation. We invest the donated funds in government account securities through the Bureau of Public Debt using their Web-based application, FedInvest. By law, the interest earned is credited to the National Garden fund.

The balances at year September 30, 2007 and 2006 are as follows:

\$ in Thousands

Investments Held With Treasury	2007	2006
Invested	\$1,392	\$7,084
Interest	52	192
Less: Expended	(1,294)	(5,884)
Total	\$ 150	\$1,392

B. Investments held Outside Treasury

In 1989, we entered into a contractual agreement with Boston Properties for the construction of the Thurgood Marshall Federal Judiciary Building. To finance the construction of the building, Shearson Lehman Hutton, Inc., and Kidder, Peabody, & Co., Inc., issued 30-year Serial Zero Coupon Certificates of Participation.

The proceeds were received by a trustee, The U.S. Trust Company of NY (now The Bank of New York), and deposited into two funds, the Project Fund and the Operating Reserve Fund. The funds are held outside the U.S. Treasury by the trustee and, at our direction, are invested or disbursed.

After construction, the remaining amounts were left in trust in the Project Fund. During 2007, the Project Fund balance was transferred to the Operating Reserve Fund. The Operating Reserve Fund is held in reserve for future needs (e.g., roof replacement, major renovation). The market values of these funds are listed below:

\$ in Thousands

Investments Held Outside Treasury		
Fund Type	2007	2006
Operating Reserve	\$34,635	\$31,932
Project	—	1,270
Total	\$34,635	\$33,202

NOTE 4:

Accounts Receivable

The breakdown of consolidated gross accounts receivable at September 30, 2007 and 2006 is as follows:

\$ in Thousands

Accounts Receivable		
Receivable Type	2007	2006
Entity:		
Intragovernmental	\$ —	\$1,413
With the Public	115	129
Total Entity	115	1,542
Non-Entity:		
Intragovernmental	1,659	48
With the Public	11	10
Total	\$1,785	\$1,600

Based upon a year-end review, all receivables are deemed collectible.

NOTE 5:

Property and Equipment

We differentiate our property and equipment by distinct categories. The following represents those categories in further detail.

\$ in Thousands

Property and Equipment - 2007			
Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Buildings	\$785,513	\$445,547	\$339,966
Building			
Improvements	860,934	440,955	419,979
Land	162,947	—	162,947
Land Improvements	138,543	23,023	115,520
Capital Leases:			
Real Property	39,541	11,086	28,455
Personal Property	—	—	—
Leasehold			
Improvements	22,934	4,921	18,013
Equipment,			
Computers,			
Hardware and			
Other	34,139	23,069	11,070
Construction Work-			
in-Progress	716,568	—	716,568
Total	\$2,761,119	\$948,601	\$1,812,518

\$ in Thousands

Property and Equipment - 2006			
Class of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Buildings	\$740,615	\$431,339	\$309,276
Building			
Improvements	729,105	410,564	318,541
Land	154,823	—	154,823
Land Improvements	101,796	17,241	84,555
Capital Leases:			
Real Property	62,603	18,445	44,158
Personal Property	91	91	—
Leasehold			
Improvements	22,387	2,593	19,794
Equipment,			
Computers,			
Hardware and			
Other	19,741	12,903	6,838
Construction Work-			
in-Progress	677,815	—	677,815
Total	\$2,508,976	\$893,176	\$1,615,800

The educational, artistic, architectural, and historical significance of the Capitol, Senate, House, Supreme Court, and Jefferson buildings meets the FASAB criteria for heritage assets. Because these buildings are currently used for day-to-day business, they are further classified as multi-use heritage assets. This means we depreciate them in the same manner as if they were general purpose assets.

In 2007, we recorded the acquisition of property in Culpeper, Va. The property, acquired via donation from the Packard Humanities Institute and a transfer of matching funds of \$16.5 million, is to be used as the Library of Congress' National Audio Visual Conservation Center. In accordance with SFFAS 6, we recorded the acquisition at the fair market value of \$45 million.

We are responsible for reviewing and authorizing all changes to the buildings and grounds prior to any change occurring.

NOTE 6:

Other Assets

\$ in Thousands		
	2007	2006
Advances to Others	\$4	\$16

In 2007, Advances to Others consisted of travel advances. In 2006, Advances to Others also included a prepaid TMFJB investment fund fee.

NOTE 7:

Liabilities Not Covered by Budgetary Resources

The liabilities on our Balance Sheets as of September 30, 2007 and 2006 include liabilities not covered by current budgetary resources. These liabilities require Congressional action prior to budgetary resources being provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources generally include accrued annual and compensatory leave, workers' compensation, debt held by the public, and capital lease liability. Liabilities not covered by budgetary resources for 2007 and 2006 are as follows:

\$ in Thousands		
Liabilities	2007	2006
Intragovernmental:		
Liabilities covered by budgetary resources	\$222	\$363
Liabilities not covered by budgetary resources	10,169	8,618
Total		
Intragovernmental	\$10,391	\$8,981

Liabilities covered by budgetary resources	\$137,184	\$86,184
Liabilities not covered by budgetary resources	297,766	300,631
Total	\$434,950	\$386,815

NOTE 8:

Payroll and Liabilities

The liability for Accrued Annual Leave and Other is comprised of three accounts: Funded Accrued Payroll (payrolls that have been earned but not paid), Unfunded Accrued Annual Leave (employee leave that has been earned but not taken) and Unemployment Compensation.

\$ in Thousands		
Accrued Annual Leave and Other		
Accrual Type	2007	2006
Funded Accrued Payroll	\$6,705	\$6,317
Unfunded Accrued Annual Leave	7,975	7,343
Unemployment Compensation	--	29
Total	\$14,680	\$13,689

Workers' Compensation is reported as required by the Federal Employees' Compensation Act (FECA). The liability is presented in two parts: an annual accrued liability for billed costs (current portion) and a long-term, actuarial-based unfunded liability (see Note 1L).

The actuarial workers' compensation liability for 2007 and 2006 was calculated using a formula provided by the DOL.

\$ in Thousands		
Workers' Compensation		
Type	2007	2006
Unfunded Annual (current)	\$8,499	\$8,560
Actuarial Unfunded (long-term)	\$44,435	\$46,938

Estimated future costs have been actuarially determined, and they are regarded as a liability to the public because neither the costs nor reimbursement have been recognized by DOL. Workers' Compensation is included in Liabilities not covered by Budgetary Resources, as described in Note 7.

NOTE 9:**Debt Held by the Public**

As of September 30, 2007 and 2006, Debt Held by the Public consists of the financing obtained for the construction of the Thurgood Marshall Federal Judiciary Building. The debt consists of 30-year Serial Zero Coupon Certificates of Participation issued in 1988 worth \$125,391,621 with a maturity value of \$525,515,000. The certificates are amortized using the effective interest rate of 8.72%. The balance of Debt Held by the Public is as follows:

\$ in Thousands

Debt Held by the Public		
	2007	2006
Securities	\$292,910	\$310,140
Interest Payable	1,080	1,158
Subtotal	293,990	311,298
Discount on Securities	(400,123)	(400,123)
Less: Amortization of		
Discount	258,438	244,992
Subtotal	(141,685)	(155,131)
Total	\$152,305	\$156,167

Various judiciary offices and personnel occupy the Thurgood Marshall Federal Judiciary Building under an Interagency Agreement between the AOC and the Administrative Office of the U.S. Courts. Base rent will not change over the initial 30 years and is set at the amount necessary to retire the debt at \$17,230,000 annually. Payment of the certificates will end in August 2024.

Per the language in the certificate agreement, "This Certificate is not subject to prepayment or acceleration under any circumstance."

NOTE 10:**Contingent and Environmental Liabilities**

We conducted a review of contingent liabilities for financial statement purposes for 2007 and 2006. Based on this review, we recorded a contingent liability for claims we think it probable we will lose and for which we can reasonably estimate the amount of an unfavorable outcome. Our review covered claims arising from contracts, environmental issues, labor and equal employment opportunity issues, and personal and property damage. Additionally, management and General Counsel evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. None of these cases were determined to meet our materiality threshold.

Fort Meade, Maryland

Our review concluded that we are not responsible for the clean-up and remediation of previous environmental contamination on the approximately 100 acres of land at Fort George G. Meade, Maryland (FGGM), which the U.S. Army transferred to us. The Army is responsible for the environmental clean-up of any previous contamination under the Comprehensive and Environmental Response Compensation and Liability Act (CERCLA). We understand that the Army is actively monitoring existing contamination on the entire FGGM site, including the 100 acres transferred to us, and is pursuing appropriate remediation of this contamination.

Capitol Power Plant

The Office of Compliance issued a complaint in February 2006, alleging that certain unsafe work practices and conditions exist at the Capitol Power Plant (CPP) utility tunnels. The alleged unsafe work practices and conditions cited in the complaint pertain to the structural integrity of concrete in the utility tunnels and tunnel egress and communication systems.

In addition, in January 2006, the Office of Compliance issued Citations 59 and 60. These citations are not part of the complaint and formal enforcement action but also address other alleged unsafe work practices and conditions at the CPP utility tunnels. The unsafe work practices and conditions alleged by the Office of Compliance in Citation 59 are that employees working in the utility tunnels are exposed to heat stress conditions. Citation 60 is discussed below under Environmental Cleanup Cost Liability.

We are actively seeking solutions to the issues identified by the Office of Compliance. We intend to pursue settlement discussions with the goal of coming to a resolution of the issues in the complaint conditioned upon our budget authority, and logistical, technical and other limitations outside of our control.

Because the review of estimates is required in the preparation of our financial statement, our balance sheets reflect a liability of approximately \$53 million in 2007 and \$34 million in 2006. Management and General Counsel believe that we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

Environmental Cleanup Cost Liability

In January of fiscal year 2006, the Office of Compliance issued Citation 60, addressing certain alleged unsafe work practices and conditions at the Capitol Power Plant utility tunnels. Since these conditions

existed at the end of 2005 and some of these tunnels have been in place and functioning since the early 1900s, we booked a liability and a related prior period adjustment as required by SFFAS 6, par. 105 on our 2005 financial statements. In Citation 60, the Office of Compliance alleges that the AOC has not adequately monitored Capitol Power Plant employees for asbestos exposure, provided required information to employees regarding the presence and location of asbestos in the tunnels, provided the required notification to employees regarding asbestos-containing materials, or adequately maintained the tunnels so they were as free as practicable from asbestos, and asbestos waste, debris, and dust. Funding was requested and funds were appropriated by Congress to address the tunnel issues which is an amount adequate in management's opinion to comply with the Environmental Protection Agency's guidelines.

NOTE 11:

Imputed Financing

In accordance with SFFAS No. 4, "Managerial Cost Accounting," imputed financing results when an entity receives un-reimbursed services from other government entities.

Our imputed financing consists of future pension benefits for our employees that are paid on our behalf by the Office of Personnel Management, printing services provided by the GPO, and design elements paid for by the Army Corps of Engineers to improve building infrastructure campus-wide.

With certain exceptions, employees participate in one of three defined benefit retirement programs based upon the starting date of their employment with us: employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), the Civil Service Retirement Offset, or the Federal Employee Retirement System, all of which are administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Our employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Federal Retirement Thrift Investment Board administers the Plan.

Civil Service Retirement System (CSRS)

According to PL 99-335, all employees hired prior to January 1, 1987, could elect CSRS or CSRS Offset. The CSRS provides a basic annuity and Medicare coverage. The CSRS fund covers most employees hired prior to January 1, 1984. The AOC and the employee contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

Civil Service Retirement System Offset

CSRS Offset generally covers those employees who have had a break in their CSRS service of more than one year and less than five years by the end of 1986. The AOC and the employee contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS Offset.

Federal Employee Retirement System (FERS)

According to PL 99-335, employees with less than five years of creditable civilian service as of December 31, 1986, were automatically converted to FERS. In addition, during certain periods in 1987, 1988, and 1998, employees hired before January 1, 1984, could choose to participate in FERS. This system consists of Social Security, a basic annuity plan, and the Thrift Savings Plan.

The AOC and the employee contribute to Social Security and Medicare at rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this system. We also match a voluntary employee contribution up to 3% dollar-for-dollar, and another 2% is matched 50 cents on the dollar.

Imputed Financing consists of the following:

\$ in Thousands

Imputed Financing		
Benefit Type	2007	2006
CSRS	\$7,963	\$8,439
CSRS Offset	639	699
FERS	16,313	14,758
Less: Contributions	(19,494)	(18,389)
Subtotal Pensions	5,421	5,507
Health	9,415	8,519
Life Insurance	25	23
Total Employee Benefits	\$14,861	\$14,049
GPO	872	-
Corps Building Improvements	4,713	12,538
Total	\$20,446	\$26,587

NOTE 12:

Leases

As of September 30, 2007, we were committed to various non-cancelable leases primarily covering administrative office space and storage facilities, motor vehicles, and office equipment. Many of

these leases contain escalation clauses tied to inflationary and tax increases, and renewal options.

In 2006, we had three real property capital leases. During 2007, we purchased one of these buildings and thus, we currently have two real property leases.

The following is a schedule of the present value of the future minimum lease payments required by those leases identified as capital leases, which have initial or remaining noncancelable lease terms in excess of one year.

Capital Leases

\$ in Thousands

Capital Leases			
Fiscal Year	Real Property	Personal Property	Total
2008	\$4,437		\$4,437
2009	4,463	-	4,463
2010	4,491	-	4,491
2011	4,518	-	4,518
2012	4,691	-	4,691
Thereafter	17,609	-	17,609
Total Future Lease Payments			40,209
Less: Imputed Interest			8,157
Net Capital Lease Liability			\$32,052

Operating Leases

We currently have leases with the General Services Administration (GSA) and commercial vendors for office and storage space, plus rentals of equipment and vehicles.

The aggregate of our future payments due under noncancelable operating leases and our estimated real property payments to GSA for fiscal year 2008 through fiscal year 2012 is as follows:

\$ in Thousands

Operating Leases			
Fiscal Year	Real Property	Personal Property	Total
2008	\$6,559	\$56	\$6,615
2009	5,650	54	5,704
2010	4,989	54	5,043
2011	4,741	42	4,783
2012	4,242	41	4,283
Thereafter	40,648	483	41,131
Total Future Lease Payments			\$67,559

NOTE 13:

Other Liabilities

During fiscal year 2007, other liabilities consists of accrued accounts payable and miscellaneous receipts that are to be forwarded to Treasury (custodial liabilities). These receipts included, but were not limited to, flag-flying fees, rent for the Monocle restaurant, and steam and chilled water. These liabilities are current.

NOTE 14:

Net Cost of Operations

Expenses for salaries and related benefits for 2007 and 2006 amounted to \$165 and \$150 million, which was about 36% and 38% of our annual cost of operations for both years. Included in the net cost of operations are imputed federal employee benefit costs of \$15 and \$14 million paid by OPM.

Exchange revenue with the public consists of revenues received for services provided, such as access to the Senate Health and Fitness Facility, House Wellness Center, steam and chilled water to governmental and private entities, work performed on reimbursable projects, and rent, interest and reimbursement for projects performed related to the Thurgood Marshall Building.

NOTE 15:

Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing)

FASAB requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement. Effective for fiscal year 2007, OMB decided that this reconciliation would be better placed and understood as a note rather than as a basic statement.

Most entity transactions are recorded in both budgetary and proprietary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts (e.g., accrual of workers'

compensation liabilities which are recorded only in the proprietary records). Furthermore, not all obligations or offsetting collections may result in expenses or exchange revenue (e.g., purchase of a building is capitalized on the balance sheet in the proprietary accounts but obligated and outlaid in the budgetary accounts).

The Resources Used to Finance Activities section reflects the budgetary resources obligated and other resources used to finance the activities of the agency. The obligations of budgetary resources are net of offsetting collections, recoveries and offsetting receipts. The other resources are financing sources that increase net position but are not budgetary resources such as donated property and imputed costs.

Resources Used to Finance Items Not Part of the Net Cost of Operations includes resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the net cost of operations. This item includes undelivered orders reflected in net obligations but not part of current period net cost of operations. It also includes budgetary resources and obligations recognized in the current period that do not affect the net cost of operations (e.g., the acquisition of assets reflected in net obligations but not in net cost of operations for the period).

Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the net cost of operations for the current period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Costs such as contingent liabilities and workers' compensation are not always funded in the period the costs are incurred and are included in this item.

Components Not Requiring or Generating Resources includes items that are recognized as part of the net cost of operations for the period but will not generate or require the use of resources, such as depreciation and amortization.

Reconciliation of Net Cost of Operations to Budget

\$ in Thousands

	2007	2006
Resources used to finance activities:		
Budgetary resources obligated	\$424,000	\$458,046
Other resources	46,966	26,587
Total resources used to finance activities	470,966	484,633

Less: resources used to finance items not part of the net cost of operations	169,092	183,029
Total resources used to finance the net cost of operations	301,874	301,604
Components of the net cost of operations requiring or generating resources in future periods	58,145	(150)
Components of net cost of operations not requiring or generating resources in future periods	56,048	54,203
Total components of net cost not requiring or generating resources in the current period	114,193	54,053
Net Cost of Operations	\$416,067	\$355,657

NOTE 16:

Stewardship Assets

Effective 2007, AOC adopted the Financial Accounting Standards Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) No. 29, Heritage Assets and Stewardship Land. This standard requires Federal agencies to reclassify all heritage assets and stewardship land information as basic and to include a note in the balance sheet. Information on the condition of such assets is considered required supplementary information (RSI).

Federal agencies are not required to show amounts on the balance sheet for heritage assets, except for multi-use heritage assets, which are assets whose predominant use is in general government operations. For example, a historical building used as an office building would be considered a multi-use heritage asset. In addition, costs are capitalized and depreciated for multi-use assets as general PP&E. The Capitol Building, Senate and House Office Buildings, the Supreme Court, and the Thomas Jefferson Building of the Library of Congress are all multi-use heritage assets.

Our heritage assets are directly related to our mission to preserve and enhance the Capitol complex and related facilities. The Architect of the Capitol is charged with operating and maintaining the buildings of the Capitol complex, as authorized by Congress. Permanent authority for the care and maintenance of the Capitol was established by the act of August 15, 1876 (40 U.S.C. 162, 163). The Architect's duties

include the mechanical and structural maintenance of the Capitol, the conservation and care of works of art in the buildings under the Architect's jurisdiction, the upkeep and improvement of the Capitol Grounds, and the arrangement of inaugural and other ceremonies held in the building or on the grounds.

AOC is responsible for the stewardship of heritage assets throughout the Capitol complex. These include those in or attached to the Capitol Building and on the Capitol Grounds. We are also responsible for the care of other works of architectural fine art in the different Jurisdictions throughout the Capitol complex, primarily in the Library of Congress' Thomas Jefferson Building. Fine art is considered to be work that is created by a known artist and is unique; that is, it is not repeated as part of a decorative scheme. Our revised Strategic Plan describes our plans to update and refine our heritage asset inventories, which include the inventory of architectural and decorative features throughout the Capitol complex.

Our curatorial and archival functions are managed by the Curator for the Architect. Until the last decades of the twentieth century, the Architect of the Capitol advised the Joint Committee on the Library on the acceptance and placement of works of art and cared for all of the art in the United States Capitol. The Curator maintains a file on each work of art and artist, as well as computerized inventories of heritage assets. The collection was catalogued and published as a whole in 1978 in *Art of the United States Capitol*. Since the creation of the positions of Senate Curator in 1968 and House Curator in 2002, responsibilities for some of our heritage assets have been shared or overlap. However, the jurisdictional lines have never been clearly drawn or agreed upon and can shift at times. The Curator for the Architect communicates regularly with the Senate and House Curators to share information and coordinate projects.

Attention to the conservation and preservation of heritage assets, such as architectural and engineering drawings and photographs, using professional standards established by the American Institute for Conservation and the National Archives and Records Administration began in the late 1970s. We follow modern conservation standards, which require that work be fully documented in writing and with photographs, and the Curator maintains a library of conservation reports. We store historic architectural and engineering drawings and textual records on-site, and some vital records, such as microfilm and photographic negatives, are stored off-site in optimum conditions.

The Curator for the Architect works with the superintendents and other facility managers to assist in the management of contracts to conserve certain heritage assets and to advise on preservation

issues. The Curator supervises the Photography Branch, which is responsible for documenting heritage assets and conservation projects. The Records Management Branch inventories and preserves documents such as textual records and architectural and engineering drawings and makes them available to support projects. We made much progress this year to make available to staff and contractors the drawing and photograph databases to support current projects and historical research.

In addition, the Architectural Historian in the Architecture Division plays an essential role in historic preservation efforts and research on buildings in the Capitol Complex. The historian works closely with the Curator's office in providing scholarly building documentation and advice to support projects, and in developing the Agency's a preservation policy. The historian researches and writes historic structure reports and creates historically appropriate designs for restorations and other improvement projects.

The Architect of the Capitol has served as Acting Director of the United States Botanic Garden since 1934. Under the direction of the Joint Committee on the Library, which is charged by law with control over of the Garden, the Architect is responsible for the maintenance and operation of the Garden and for any construction, changes, or improvements made. In support of its mission, the U.S. Botanic Garden (USBG) maintains an orderly, documented, labeled collection of living plants. The USBG Plant Collection includes all the plants that are used to fulfill the mission of the institution with the exception of those foliage and crop plants that are grown for the express purpose of leaving our premises (and care) for permanent or indefinite display elsewhere. Ideally, for every plant in the collection a programmatic purpose has been designated for which the plant is needed, and which justifies the investment of staff and material resources necessary for its acquisition and maintenance. It is expected that as programmatic needs change, the composition of the plant collection will reflect that evolution. The Garden's noteworthy collections include economic plants, medicinal plants, orchids, cacti and succulents, bromeliads, cycads, and ferns. The staff maintains extensive computerized records of the plants in the Garden's collections. The RSI section of our Performance and Accountability Report provides additional information about our heritage assets.

Independent Auditor's Report on Internal Control

To the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of and for the year ended September 30, 2007, and have issued our report dated January 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The management of AOC is responsible for maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered AOC's internal control over financial reporting by obtaining an understanding of the design effectiveness of AOC's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of AOC's controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of AOC's internal control over financial reporting.

We limited our control testing to those controls necessary to achieve the following OMB control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; (2) transactions are executed in compliance with laws governing the use of budget authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, and other laws and regulations that could have a direct and material effect on the financial statements; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects AOC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of AOC's financial statements that is more than inconsequential will not be prevented or detected by AOC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by AOC's internal control. Our consideration of internal control was for the limited purpose described in the second paragraph of this report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted three matters, discussed below, involving the internal control and its operation that we consider to be material weaknesses.

MATERIAL WEAKNESSES

1. Internal Control Assessments (Repeat Condition)

AOC has not completed a formal and systematic assessment and evaluation of the design and operation of internal controls. As of September 30, 2007, AOC has completed an assessment of the procure to pay process, and has partially completed the human resource, time and attendance, and project management processes. In the absence of a complete assessment, AOC cannot determine if its current internal control design mitigates existing risks and effectively safeguards assets.

Recommendation – We recommend that AOC complete and document internal control assessments that evaluate the effectiveness of the design and operation of its internal control structure, including the identification of risks to material accounts and the existence of internal controls to mitigate those risks. Although AOC is not subject to OMB Circular A-123, *Management's Responsibility for Internal Control*, we recommend that AOC consult the "Implementation Guide for OMB Circular A-123, Appendix A, Internal Control over Financial Reporting" (the Guide). The Guide was issued by the Chief Financial Officer's Council in May 2005. The Guide includes guidance to enable management to evaluate internal controls and monitor and test these controls throughout the year.

2. Risk Assessment Updates (Repeat Condition)

The AOC internal control environment does not have a formal, documented process to monitor the internal and external environment, identify changing risk profiles, or respond accordingly. Specifically, AOC did not implement additional controls to reconcile the payroll data transmitted to and received from the National Finance Center (NFC), as recommended by NFC as an appendix to its qualified SAS 70 opinion. While several employees performed additional tests in response to the event, the actions were predicated on individual efforts, as compared to a repeatable and sustainable systemic effort.

Recommendation – We recommend that AOC develop a component in the internal control structure to monitor and identify changing risks. Also, AOC should reconcile NFC payroll data transmission to data receipt including, at a minimum, jurisdictional employees and hours.

3. Internal Control Design and Management of the Purchase to Disbursement Process (Modified Repeat Condition)

No organization/entity within AOC is accountable for the collective purchase to disbursement process. AOC has decentralized many components of the purchase and disbursement process, including initiating and coding requisitions, purchase authorizations, receiving, and disbursement approvals. Within a decentralized process, this lack of central monitoring and oversight results in a weakened control environment. This lack of internal control oversight and financial information integration includes the following:

- Seven individuals from two divisions had access and the ability to modify the vendor database with no process to ensure the propriety and accuracy of changes. In addition, supervisors did not approve vendor requests before new vendors were created in the system. Changes and modifications to the vendor database directly affect those to whom AOC can disburse funds.
- The jurisdictions' purchasing agents enter Budget Object Codes (BOCs) into purchase requisitions. However, the purchasing agents have received no financial training and have no written guidance to ensure consistent coding of transactions. Subsequent financial reporting and analyses is predicated upon the original coding. Additionally, AOC cannot readily search the financial records for certain transaction types, such as leases.
- AOC does not have a formal process to regularly review Construction Work in Progress projects with Project Managers after the project is initially established to ensure that accounting treatment is consistent with actual project activity. We identified one project, which contained a component that did not qualify for capitalization. We also questioned the proper capitalization of approximately ten other projects. While AOC was later able to justify the capitalization, AOC conducted the research in response to our queries, instead of as an integral component of the financial statement preparation process.

Recommendation – We recommend that AOC assign formal authority for oversight and monitoring of the process, including risk assessments and control design. This assessment should focus on interchange points between all process participants to ensure that financial statement risks are adequately mitigated. We also recommend limiting access to the vendor database to a select number of individuals, and that proposed changes be reviewed and approved before data entry. Data entry should also be reviewed for accuracy by a bipartisan, third party.

SIGNIFICANT DEFICIENCIES

1. Information System Controls (Repeat Condition)

We evaluated AOC's information system general controls following guidance provided by the National Institute of Standards and Technology (NIST) and the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM). We provided a detailed report, as well as a prioritization of findings, under separate cover. For detailed descriptions of and recommendations for these findings, refer to the separately issued report.

We continue to identify areas for improvement in the implementation of AOC's security program as a result of the absence of key security personnel, such as the Chief Information Security Officer (CISO). However, AOC's incumbent CISO has made progress in improving its overall security program over the past few months. Progress includes the following:

- Initiating a plan for improvement; actions currently in progress include:
 - Identification of threats, analysis of impacts, determination of risks, recommendation of controls
 - Reviews of past risk assessment results, certification and accreditation (C&A) documentation, and third-party control assessments (SAS 70)
- Revising AOC's Information Security Program Policy and related procedures
- Improving controls over the modification of application software
- Developing an Interconnection Security Agreement with third-party service providers
- Initiating a Security Awareness Training plan
- Developing a C&A completion action plan and timeline.

While these efforts are important to reducing risk associated with identified deficiencies, they do not substantially change the information technology (IT) control environment.

Having noted improvements, AOC still has areas of weakness that need to be addressed. Some of the salient findings from that report appear below. Findings are reported under the following general categories:

- Entity-wide Security Program (SP)
- Access Control (AC)
- Service Continuity (SC).

Entity-wide Security Program

This category provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. We noted weaknesses in the following areas relating to AOC's entity-wide SP:

- Risk assessments for financial and core operational components
- Information Systems Security Plans (ISSP) are not fully implemented
- Incident response procedures
- Detailed hiring procedures
- Security awareness and technical security training
- Effectiveness of corrective action process.

Access Control

Controls within this category limit or detect access to computer resources (i.e., data, programs, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure. We noted weaknesses in the following areas relating to the AOC's AC:

- Defining and documenting user profiles
- De-provisioning and reassessing user accounts and assigned privileges
- Administration of special access privileges and the control of emergency and temporary authorizations
- Implementing tools and formalizing procedures for the handling of security violations.

Service Continuity

The controls in this category prevent loss of the capability to process, retrieve, and protect information maintained electronically. In prior years, we noted weaknesses related to the comprehensive Continuity of Operations Plan (COOP) and/or Disaster Recovery Plan (DRP). For the current year, we noted that AOC made improvements in this area by developing procedures for restoring IT services, backing up data, and performing testing of failover procedures. However, AOC needs to define continuity planning for major applications to ensure business-related activities can resume in a timely manner.

Recommendation – We recommend that AOC perform the following:

- Conduct a comprehensive risk assessment using NIST SP 800-30 methodology to identify risks and implement appropriate mitigating controls to address the vulnerabilities including those identified in SAS 70 audit reports
- Complete the implementation of the security plans
- Revise customer help desk incident response procedures to include responsibilities for security incident response
- Define IT division (ITD) positions, including level of sensitivity
- Require all AOC employees to receive annual security awareness training as well as require IT security staff to receive specialized training for assigned job duties and maintain evidence of such training
- Develop a formal process to address observations from security reviews, which should include independent evaluation of the corrective action
- Document user profiles and include them in the system security plans

- Develop and implement user account management procedures to ensure timely removal or modification of user accounts and assigned privileges
- Implement monitoring procedures in accordance with NIST SP 800-92, to ensure network management is compliant with ITD policies and procedures
- Implement network management tools and procedures to enhance control
- Continue to develop a comprehensive COOP/DRP, perform tests of the plans, and make necessary changes based on results.

2. Time Recordation, Processing, and Approval Procedures (Repeat Condition)

We identified the following instances in which AOC time recordation and payroll was not properly authorized:

- Out of a sample of seventy-eight, thirty employees were either missing an overtime approval form, did not have the required authorizing signature, or did not obtain approval before the overtime was taken
- Out of a sample of seventy-eight, twelve leave request forms were not approved prior to the leave being taken.

Recommendation – We recommend that AOC ensure that policies concerning the approval and entering of time are strictly enforced.

We also identified other, less significant matters that will be reported to AOC's management in a separate letter.

This report is intended solely for the information and use of the Office of Inspector General of AOC, AOC management, GAO, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties.



January 16, 2008
Alexandria, Virginia



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Independent Auditor's Report on Compliance and Other Matters

To the Architect of the Capitol

We have audited the financial statements of the Architect of the Capitol (AOC) as of and for the year ended September 30, 2007, and have issued our report dated January 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The management of the AOC is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with laws and regulations including laws governing the use of budgetary authority, laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 07-04 and other laws, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to AOC. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests disclosed two instances of noncompliance, described below, with laws and regulations or other matters that are required to be reported upon under *Government Auditing Standards* and OMB Bulletin No. 07-04.

- AOC was not compliant with the Congressional Accountability Act (CAA) of 1995. In the CAA, Congress made its facilities and employees subject to the same safety laws that apply outside of the Legislative Branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings, including the buildings of AOC. The Office of Compliance has conducted ongoing safety investigations since the inception of the Act, which have identified numerous safety hazards in several of AOC's buildings.
- AOC is responsible for maintenance of the utility tunnels which run from the Capitol Power Plant to the House and Senate office buildings, United States Capitol, and other surrounding buildings. In January 2006, the Office of Compliance issued citations resulting from its July 2005 investigation, which alleged violations of the Occupational Health and Safety Act. These citations addressed the following:
 - Employee exposure to heat stress conditions

- Monitoring of employees potentially exposed to airborne concentrations of asbestos
- Notifying employees about the presence and location of materials containing asbestos
- Labeling of materials containing asbestos
- Maintaining surfaces free of asbestos waste, debris, and dust.

This report is intended solely for the information and use of the AOC Office of Inspector General, AOC management, OMB, Government Accountability Office, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.



January 16, 2008
Alexandria, Virginia